

## An Open Letter To Minister Morneau Regarding Proposed Federal Tax Changes for CCPCs from Canadian Physicians

To: Hon. William Francis Morneau, Minister of Finance

CC: Board of the Canadian Medical Association

Boards of Provincial/Territorial Medical Associations across Canada

Dear Minister Morneau,

We are a group of physicians from across Canada contributing a shared perspective on the proposed changes to the Canadian-controlled private corporation (CCPC) tax regulations. We work in various specialties and practice models, both incorporated and not. While we have had some concerns with the government's approach and language used in the rollout, we do fundamentally support an equitable taxation system as a pillar for a just and healthy society.

The median income of an individual in Canada was \$33,920 in 2015,<sup>1</sup> a fraction of the income of most full-time physicians.<sup>2</sup> Rising income inequality has negative population health consequences for rich and poor alike.<sup>3</sup> We need adequate tax revenues to fund social programs such as affordable housing, pharmacare, social assistance, legal aid, and the healthcare system itself. These programs directly impact the health of our patients, and we believe it is important for us to contribute to their sustainability through an adequate tax base.

Physicians are in a unique situation of being publicly funded, but mostly self-employed, often running practices with varying amounts of overhead. We generally do not receive benefits, such as extended health, parental leave, or pensions. We have long training periods, incur significant student debt, enter the workforce late, and have high rates of burnout. Still, even with these constraints, the vast majority of physicians remain among the top 1-5% of income earners in Canada.

Through various provincial negotiations, physicians have been given the opportunity to incorporate. In some cases this was done in lieu of fee increases despite federal jurisdiction over relevant tax policy. Sixty percent of physicians across the country are incorporated,<sup>4</sup> and as such, are able to access legal mechanisms to reduce their tax rate via income sprinkling, earning passive investment income, and converting income to capital gains.

Some physicians have argued that these tax mechanisms are provided in lieu of benefits or to compensate for high student debt and long training periods. We suspect that these concerns, as well as increasing rates of burnout and inequities between physician payment models, are

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<sup>1</sup> <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil105a-eng.htm>

<sup>2</sup> [https://secure.cihi.ca/free\\_products/Summary\\_Report\\_2015\\_EN.pdf](https://secure.cihi.ca/free_products/Summary_Report_2015_EN.pdf)

<sup>3</sup> <https://www.ncbi.nlm.nih.gov/pubmed/25577953>

<sup>4</sup> <https://www.cma.ca/Assets/assets-library/document/en/advocacy/submissions/cma-brief-medical-practice-as-small-business-march-17-2016.pdf>

also contributing to the majority response - one of opposition to the changes - thus far. However, we feel that these issues are best addressed at their root with the best available policy solutions and not in inherently unstable ways through a tax system that is constantly evolving. Such solutions will require adequate funds especially from those most able to pay to provide all Canadians with high quality public services, including healthcare.

We thus believe that these solutions do not lie in maintaining existing tax benefits for the medical profession. Following careful consultation and review of recent literature on the subject, it appears that these benefits are advantageous mostly to certain incorporated doctors with specific family structures and those who earn enough to supercede traditional savings vehicles available to all Canadians (RRSPs, TFSAs, RESPs, CPP).<sup>5</sup> This seems unfair to single-parent physicians, those with young children or those who cannot incorporate at all. It also seems unfair that these benefits are not available to Canadians with similar incomes who cannot incorporate. As such, we support the proposed changes regarding income sprinkling, tax rates on passive investment income, and capital gains through corporations. However, these changes should not be made without a transition plan, nor in isolation, but rather as part of a comprehensive review of tax policy with a view to equity.

As such, we call on the federal government to:

1. Implement proposed reforms to Canadian controlled private corporations as a first step in a comprehensive reassessment of tax policy in Canada, especially mechanisms that disproportionately benefit large corporations and the wealthiest Canadians.
2. Outline a clear transition plan for savings held in medical professional corporations. Physicians who have used these methods under existing agreements to prepare for retirement should not be unfairly penalised. For those who have foregone contributions to TFSAs, RRSPs, RESPs and CPP, we suggest a one-time retroactive contribution period.
3. Work with provinces and territories to review options for access to extended health benefits, parental leave, and pension plans for all Canadians, as well as payment reform options that would be available to *all* physicians that address these important aspects.
4. Work with provinces and territories to tackle the issue of increasing medical student debt by lowering tuition for incoming students and implementing forgiveness programs for existing debt.

Thank you for your time, and we look forward to your reply.

Sincerely,

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<sup>5</sup> <http://dx.doi.org/10.1787/9789264273467-en> pages 79-80

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Further signatories to be added upon sending the letter to Minister Morneau and its public release. Please sign the letter at <https://goo.gl/forms/cdYTEdDYhfGaPrdw1>